

# **PUBLIC SERVICE COMMISSION OF WISCONSIN**

## **Memorandum**

April 19, 2007

TO: Eric Callisto, Executive Assistant

FROM: John Lorence, Deputy General Counsel  
Office of General Counsel  
Carol A. Stemrich, Energy Engineer  
Gas and Energy Division

RE: Collection of Energy Efficiency and Renewable Resource Dollars

### **Background explaining unintended issue created by 2005 Wisconsin Act 141**

Until July 1, 2007, the statewide energy efficiency and renewable resource programs are being funded through two sources. The first is a public benefits fee that is collected from all electric customers. The second source of funding is utility revenues from Class A electric and natural gas utilities (the largest utilities based on revenues) in the amount equal to that each utility spent on energy efficiency programs in 1998.

2005 Wisconsin Act 141 revises the statewide programs and sets the funding level for energy efficiency and renewable resource programs at 1.2 percent of a energy utility's operating revenues. It also caps the amount of dollars collected from large customers, as defined in the Act, at the level each at which these large customers contributed to public benefits, not including the public benefits fee, and ordered programs in 2005. This large customer cap remains in place until a Commission proceeding that determines the appropriate allocation of dollars to the various customer segments is completed, and acted on by the legislature. This should happen before mid-2009.

In 2005, only large energy customers of Class A utilities contributed to utility revenue dollars for statewide energy efficiency and renewable resource programs or ordered programs. However, the large energy customer of one Class A electric utility, Consolidated Water Power Company was not required to contribute to utility revenues for statewide energy efficiency programs in 2005.

The result of the Act 141 cap on large customer contributions is that beginning July 1, 2007, non-Class A energy utilities and Consolidated Water Power will need to collect all of the required energy efficiency and renewable resource funding from its smaller customers. For a utility that receives a significant portion of its operating revenue from its large customers, this can result in unacceptably large rate increases for smaller customers.

For instance, Consolidated Water Power has one large energy customer that will have its contribution capped at zero dollars. Under Act 141, Consolidated's required funding for the

statewide energy efficiency and renewable resource programs, based on 1.2 percent of operating revenues is \$845,000. Consolidated has about 1,150 customers, about 970 residential and about 180 commercial, from which it can collect these dollars. In 2005, revenues from these customers were about \$1,000,000. Consequently, in order to collect its required contribution to the statewide energy efficiency and renewable resource programs, revenue collections from Consolidated's residential and commercial customers would almost double. An average residential customer would receive an increase of about \$35 a month and an average commercial customer would receive a monthly bill increase of about \$450.

The Commission proposes an addition to Wis. Stat. § 196.374(5)(bm) which is intended to address the problem. The language will eliminate the need for very large rate increases for the smaller customers of a utility like Consolidated Water Power, which receives so much of its operating revenue from a large customer.

For the short transition period between July 1, 2007, when the Act 141 provisions described above take effect, and the date when the Commission's new allocation proposal can take effect, operating revenues that an electric utility receives from its large customers are not considered when determining the funding level for energy efficiency and renewable resource programs if the large customers were not contributing dollars for the statewide programs under pre-Act 141 requirements. This option expires when the new allocation proposal takes effect.

Section X. 196.374(5)(bm)3. is created to read:

**196.374(5)(bm)3.** Until the Commission's allocation proposal under this paragraph takes effect, the Commission may not include the revenues received from a large energy customer in the calculation of operating revenues under sub. (3)(b)2. for an energy utility that in 2005 did not collect revenues from its customers under s. 196.374(3), 2003 Stats.

(end)

Current language in Wis. Stat. § 196.374(5), to take effect July 1, 2007, regarding cost recovery:

**196.374 (5) Cost recovery.** (a) Rate-making orders. The commission shall ensure in rate-making orders that an energy utility recovers from its ratepayers the amounts the energy utility spends for programs under sub. (2) (a) 1.

(b) Large energy customers. 1. Except as provided in sub. (2) (c) and par. (bm) 2., if the commission has determined that a customer of an energy utility is a large energy customer under 2005 Wisconsin Act 141, section 102 (8) (b), then, each month, the energy utility shall collect from the customer, for recovery of amounts under par. (a), the amount determined by the commission under 2005 Wisconsin Act 141, section 102 (8) (c).

2. A customer of an energy utility that the commission has not determined is a large energy customer under 2005 Wisconsin Act 141, section 102 (8) (b), may petition the commission for a determination that the customer is a large energy customer. The commission shall determine that a petitioner is a large energy customer if the petitioner satisfies the definition of large energy customer for any month in the 12 months preceding the date of the petition. If the commission makes such a determination, the commission shall also determine the amount that the energy utility may collect from the customer each month for recovery of the amounts under par. (a). The commission shall determine an amount that ensures that the amount collected from the customer is similar to the amounts collected from other customers that have a similar level of energy costs as the customer. Except as provided in sub. (2) (c) and par. (bm) 2., each month, the energy utility shall collect from the customer, for recovery of amounts under par. (a), the amount determined by the commission under this subdivision.

(bm) Allocation proposal. 1. The commission shall commence a proceeding for creating a proposal for allocating within different classes of customers an equitable distribution of the recovery of the amounts under par. (a) by all energy utilities. The purpose of the allocation is to ensure that customers of an energy utility within a particular class are treated equitably with respect to customers of other energy utilities within the same class. No later than December 31, 2008, the commission shall submit the proposal to the governor and chief clerk of each house of the legislature for distribution to the appropriate standing committees of the legislature under s. 13.172 (3).

2. If, by July 1, 2009, legislation based on the proposal under subd. 1. has not been enacted, the commission shall, beginning on July 1, 2009, annually increase the amount that an energy utility may recover from a large energy customer each month under par. (b) only by a percentage that is the lesser of the following:

- a. The percentage increase in the energy utility's operating revenues during the preceding year.
- b. The percentage increase in the consumer price index for all urban consumers, U.S. city average, as determined by the U.S. department of labor, during the preceding year.





# Public Service Commission of Wisconsin

Daniel R. Ebert, Chairperson  
Mark Meyer, Commissioner  
Lauren Azar, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

## 2005 Wisconsin Act 141 Cap on Collections from Large Energy Customers

- Energy utilities are to collect 1.2% of their operating revenues to fund energy efficiency and renewable resource programs through the Focus on Energy program. Approximately \$90 million per year available under the reconstituted program.
- Collection of dollars from large energy customers:
  - "Large Energy Customer" is a defined term under Act 141 – 1,000 kw or 10,000 decatherms use per month at a facility plus \$60,000 billings per month at all facilities.
  - Amount to be collected from each large energy customer is capped at the amount collected in 2005, through utility revenues, to fund energy efficiency and renewable resource programs.
  - Large energy customers of non-Class A energy utilities, as well as Consolidated Water Power Company, did not contribute utility revenue dollars for energy efficiency and renewable resource programs in 2005. Thus, effective July 1, 2007, the law as passed requires no contribution from large energy customers of these energy utilities to Focus on Energy.
  - Cap is in place until legislature adopts a new statutory structure (through PSC proposal). PSC proposal due by December 31, 2008 (and likely much sooner).
- Impact of collection cap on certain smaller customers of three utilities:
  - Cap on collection from large energy customers results in the collection of the entire 1.2% of operating revenues from the utility's remaining customers.
  - Result can be an unacceptably large rate increase for smaller customers.
    - Consolidated Water Power – Average small customer bill increases **80.46%**
    - City Gas Company – Average small customer bill increases **1.25%**
    - St. Croix Valley Natural Gas – Average small customer bill increases **1.34%**
- What the bill does:
  - Excludes from the 1.2 % of revenues required to be collected by the above three utilities the revenues from the large energy customers.
  - Statutory fix will lead to equity for small customers, but also a temporary \$810,000 reduction in dollars available for statewide energy efficiency and renewable resource programs through Focus on Energy.

